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Directorate of Intelligence

CIA OTI

CEI-9812

Caspian Energy Issues

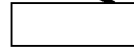
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Overview: Caspian Oil and Gas Development Entering a New Phase ☐

Caspian energy development has moved out of its initial investment stage, and producing states and their foreign partners are turning their attention to developing the additional transportation links needed to carry the region's oil and gas to world markets. Production will increase significantly this year for the first time since the breakup of the Soviet Union—from about 800,000 barrels per day (b/d) in 1997 to 900,000 b/d in 1998. The Azerbaijan International Operating Company (AIOC) began producing its first oil late last year and Azerbaijani oil has begun moving along the northern route for early oil. Kazakhstan's Tengiz field has been increasing production steadily, and the Caspian Pipeline Consortium (CPC) pipeline project has finally received all necessary permits and will begin construction as soon as pipe arrives. ☐

Attention is now turning to the second major pipeline route decision from the Caspian. On 29 October, leaders from Azerbaijan, Georgia, Kazakhstan, Turkey, and Uzbekistan signed a declaration reaffirming their support for a Baku-Ceyhan main export pipeline. Whether this and other major east-west transportation projects are realized will depend on several key factors.

- Azerbaijan and Turkey will need to offer attractive commercial terms for a main export pipeline from Baku to Ceyhan to make this route more competitive.
- Oil production from the East Caspian will have to be aggregated with Azerbaijan's output to make Baku-Ceyhan viable in the near future. This will require cooperation at senior government levels as well as participation in the project by companies producing in the East Caspian.
- Disputes over borders and environmental issues probably will continue for some time, jeopardizing field development and cross-Caspian transport decisions. The Turkmen-Azerbaijani boundary dispute continues to be a large obstacle to a cross-Caspian gas export pipeline from Turkmenistan to Turkey, while Russia and Iran are likely to object on environmental grounds to oil transport schemes linking the two sides of the Caspian.
- Iran and Russia are promoting near- to medium-term oil transportation arrangements—such as swaps—that will compete for new production and could allow oil companies to delay decisions for the next large volume export pipeline—after the CPC pipeline—for several years. ☐

The depressed outlook for oil prices probably will slow investments in oilfield development and the timing of export pipelines from the region. ☐

This report presents a compilation of the key players and the political, resource, and economic dynamics that will bear on the region's future energy development. ☐

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Proposed European oil export route
Proposed Caucasus-Turkey oil route (many variants)
Proposed Iranian oil route
Proposed Chinese oil pipeline
Proposed Pakistani oil pipeline
Proposed Pakistani gas pipeline
Proposed Turkmen gas pipeline
Proposed Blue Stream gas pipeline
Proposed circum Black Sea gas pipeline expansion

— pipeline
 tanker/barge
 ▲ oil-producing region
 ⊙ port

0 500 Kilometers
 0 500 Miles

Boundary representation is not necessarily authoritative.

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Azerbaijan: All Eyes on Baku-Ceyhan

Azerbaijani President Aliyev was reelected on 11 October and is now turning his full attention to the impending Azerbaijani International Operating Company's (AIOC) recommendation for a main export pipeline (MEP) route for Caspian oil. He maintains that an MEP will go from Baku, Azerbaijan, through Georgia to Ceyhan, Turkey, despite oil companies' arguments that a route from Baku to Supsa on Georgia's Black Sea coast is more commercially attractive.

- His resoluteness stems primarily from his view that the choice of an MEP to Ceyhan is a critical geostrategic decision rather than a strictly commercial issue. Moreover, with the United States, Georgia, and Turkey all pressing for the Ceyhan route, Aliyev probably calculates that the AIOC eventually will have no choice but to choose the Turkish route.

Aliyev's geostrategic vision involves linking the Caucasus and parts of Central Asia irrevocably to the West, first through economic ties and ultimately through security guarantees. Linkage to Turkey—a NATO member—is integral to this plan and would allow Baku to distance itself further from Russia and Iran, which Aliyev views as threats to Azerbaijan's security. As such, Aliyev does not view the Baku-Ceyhan pipeline merely as a means to transport oil, but as an essential step toward solidifying his strategic goals.

- The successful development of the Eurasian Transport Corridor could lead to increased interaction with the West and enable Azerbaijan—for the first time in centuries—to take advantage of its geography to develop as a Western-oriented, prosperous, and independent state.

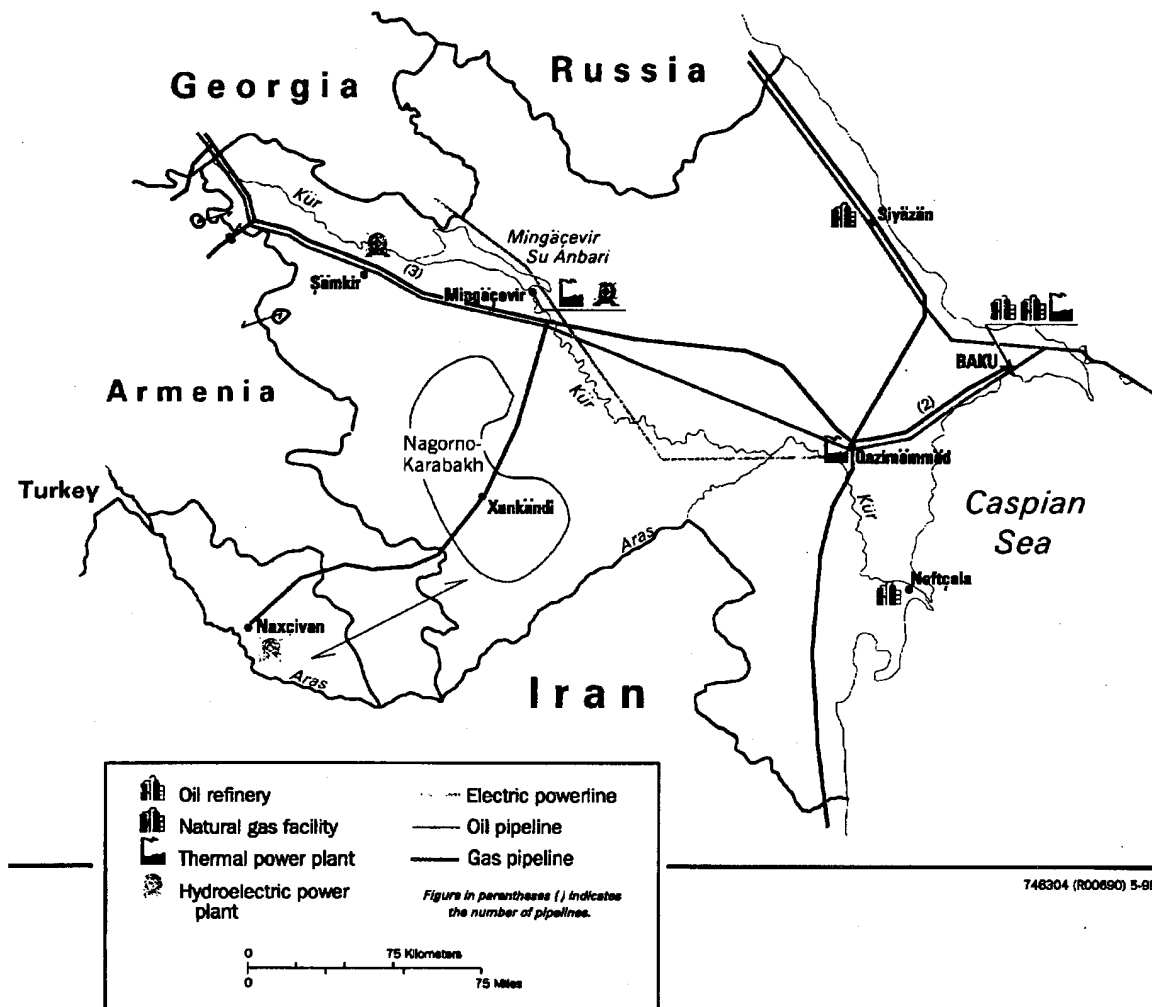
Finally, Aliyev probably calculates that a Baku-Ceyhan MEP could further consolidate Azerbaijan's bilateral relations with Turkey. Aliyev values his relationship with Turkey and views it as Azerbaijan's natural partner in the region because of common cultures, languages, and animosities toward Iran, Russia, and Armenia.

- Turkey's strong preference for the Baku-Ceyhan route has provided Aliyev leverage over the Turkish Government, which he has used to enlist Ankara's cooperation in aiding his reelection bid. Although Azerbaijan's leverage will decrease once an MEP decision is made, a Baku-Ceyhan route would create strong incentives on both sides to continue cooperative relations. Baku's leverage would be all but eliminated, however, if the MEP were to go to Supsa, because such a decision would fuel Turkish skepticism that a pipeline will ever be built to Ceyhan and could lead to cooler bilateral relations with Azerbaijan.

This report was prepared by analysts from the Office of Transnational Issues and the Office of Russian and European Analysis. Comments and queries are welcome and may be directed to OTI.

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Major Energy Facilities in Azerbaijan



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Azerbaijan: Energy Resources and Projects ☐

Azerbaijan has proved oil reserves of 8 billion barrels, according to CIA and industry estimates. Potentially recoverable oil resources, however, are estimated to be as high as 35 billion barrels.

- The international oil industry is more interested in developing Azerbaijan's huge offshore oil resources than the country's existing onshore fields, which were mismanaged during the Soviet era and are currently in decline.
- Azerbaijan's gas reserves are believed to be modest—311 billion cubic meters (bcm)—by comparison with its neighbors' huge reserves. ☐

Azerbaijan increased oil production for the first time in several years in 1998. Volumes are expected to increase further as expanding foreign investment brings new production on-line and slows the decline of older wells.

- Oil production currently is about 240,000 barrels per day (b/d), but output could exceed 1 million b/d by 2010. Azerbaijan's largest fields—Azeri, Chirag, and Guneshli—are expected to reach 700,000 b/d within a decade.
- Two exploration projects—the Caspian International Petroleum Company and the North Aspheron Operating Company—failed to find commercial quantities of oil in wells drilled this year. A third project—the Shahdeniz Consortium—is currently drilling its first exploration well.
- Azeri gas production will rise quickly with oil production, meeting domestic demand and leaving a surplus for possible export after about 2002. ☐

Azerbaijan's oil sector is heavily dependent on foreign investment. President Aliyev has aggressively recruited companies from around the world, attracting around \$30 billion in planned upstream investment, including about \$10 billion from US firms.

- One project alone—the Azerbaijan International Operating Company (AIOC)—will account for nearly \$10 billion in investment over the next few decades. ☐

AIOC is developing three separate pipelines to move oil to world markets.

- The “northern early oil” route—opened in October 1997—is designed to carry about 115,000 b/d through Chechnya to the Russian Black Sea port of Novorossiysk.
- The “western early oil” route under construction through Georgia to the Black Sea port of Supsa is scheduled to come onstream in early 1999 with a capacity of 100,000 b/d. Azerbaijan and AIOC currently are disputing \$275 million in cost overruns.
- AIOC and producing and transit states are negotiating the route for a main export pipeline from Baku. The main options are a 500,000-b/d route to Supsa or a 1-million-b/d route to Ceyhan on the Turkish Mediterranean coast. The longer Ceyhan route will require oil from East Caspian producers to supplement Azeri oil. ☐

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Major Oil Projects in Azerbaijan

<i>Project/Participants (% share)</i>	<i>Potential Oil Resources (barrels)</i>	<i>Estimated Current Production (b/d)</i>	<i>Estimated Peak Production (b/d) and Year</i>	<i>Estimated Total Cost (\$)</i>
Abikh BP/Statoil (25), SOCAR (50), others (25)	4 billion	0	na	4 billion
Absheron Chevron (30), SOCAR (50), Total (20)	1 billion	0	na	na
AIOC/Azeri, Chirag, Guneshli BP (17.13), Amoco (17.01), Unocal (10.05), Lukoil (10), SOCAR (10), Statoil (8.56), Exxon (8), TPAO (6.75), Pennzoil (4.82), Itochu (3.92), Ramco (2.08), Delta/Amerada Hess (1.68)	5.8 billion	90,000	800,000 in 2012	9 billion
CIPCO/Karabakh Lukagip (50), Lukoil (7.5), Agip (5), Pennzoil (30), SOCAR (7.5)	585 million to 1.1 billion	0	na	2 billion
Inam Amoco (25), Monument (12.5), CFC (12.5), SOCAR (50)	875 million to 2.2 billion	0	na	2 billion
Karabagli/Kyursangya SOCAR (50), Frontera/Baker Hughes (30), Delta/Amerada Hess (20)	170 million	0	5,000 in (na)	700 million
Kyurdashi SOCAR (50), Agip (25), Mitsui (15), TPAO (5), Repsol (5)	365 to 725 million	0	100,000 in (na)	2.5 billion
Lenkoran Deniz/Talysh Deniz Elf Aquitaine (40), Total (10), OIEC (10), Deminex ((10), Petrofina (5), SOCAR (25)	365 to 730 million	0	na	2 billion
Muradhanli Ramco (50), SOCAR (50)	240 million	0	26,000 in 2003	360 million
Nakhichevan Exxon (50), SOCAR (50)	700 million	0	na	na
NAOC/Ashrafi-Dan Ulduzu Amoco (30), Unocal (25.5), SOCAR (20), Itochu (20), Delta/Amerada Hess (4.5)	730 million to 1.1 billion	0	na	1.5 billion
Oguz Mobil ((50), SOCAR (50)	300 million	0	na	na

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Shahdeniz BP (25.5), Statoil (25.5), SOCAR (10), Lukoil (10), Elf Aquitain (10), OIEC (10), TPAO (9)	730 million to 2 billion	0	na	4 billion
Southwest Gobustan Commonwealth (40), Union Texas (40), SOCAR (20)	100-150 million	0	na	900 million
Yalama Lukarco (60), SOCAR (40)	400 million	0	na	2.5 billion

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